

# Rising Unemployment in a

# STRESSED

## Labor Market

The U.S. economy has been dealing with a series of difficult problems over the past year or so. The ongoing housing and construction bust with falling home values, very high unsold housing inventories, foreclosures, and tight credit conditions have resulted in severe strains on the financial system. Manufacturing employment continues to hemorrhage as the multiyear jobs losses—26 consecutive months of declining employment—mount. In addition the consumer has been battered with high energy and food prices that have eroded purchasing power. Eight consecutive monthly nonfarm payroll jobs losses, totaling 605,000 since December 2007, are pressuring income growth.

With a deteriorating labor market, the unemployment rate crossed a new threshold in August, reaching 6.1 percent—the highest rate of unemployment since September 2003. The unemployment rate reached its lowest point in the current expansion in October of 2006, at a level of 4.4 percent, generally considered “full employment” by many economists. A year ago the rate was still a quite favorable 4.7 percent.

In August 2008, there were an estimated 9,479,000 unemployed—persons who are available to work—having actively looked, unsuccessfully, for a job during the past month. This is an increase of 2,391,000 or 33.7 percent more than

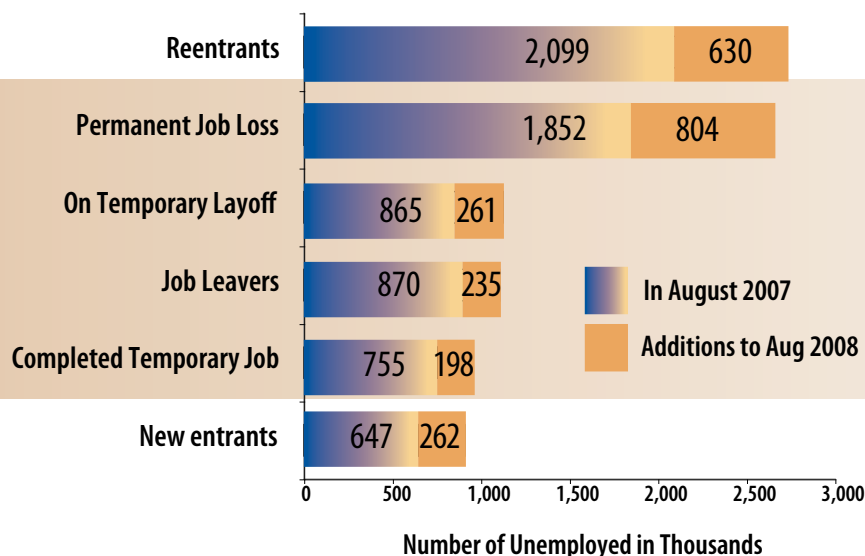
the 7,088,000 unemployed in August of 2007.

As classified by the U.S. Bureau of Labor Statistics (BLS), there are six different reasons or types of unemployment for those currently seeking a job without current work (see graph). The top two reasons for unemployment are re-entrants—those who are looking for work after not choosing to work for pay for some period of time; and those who have suffered a permanent job loss. Together these two types of unemployment account for almost 57 percent of those who are jobless.

The remaining reasons for unemployment include: those on temporary lay-

## Reason for Unemployment in the U.S. • August 2008

Source: Bureau of Labor Statistics.



off for lack of work and expect to be called back, job leavers, those having completed a temporary job, and new entrants—usually young persons who are seeking employment for the first time.

Increasing slack in the labor market is measured in other ways besides unemployment. BLS tracks discouraged workers, for example—those who want a job but have quit looking because they believe there are no jobs available for them—measured at 381,000 in August 2008. Furthermore, there are part-time workers who want full-time jobs, those who BLS classifies as “part-time for economic reasons,” totaling 5.7 million in August.

As 2008 comes to an end, all of the factors that are weighing negatively on the U.S. labor market seem to be continuing. The serious stresses on consumer and business spending, coupled with a severely strained financial system suggest that further labor market deterioration should be expected. ❶

